China Feihe Limited

中國飛鶴有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6186)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2021:

- The Group's revenue was RMB11,543.8 million, representing an increase of 32.6% as compared to the same period last year;
- The Group's gross profit was RMB8,457.1 million, representing an increase of 36.9% as compared to the same period last year;
- The Group's profit for the period was RMB3,765.3 million, representing an increase of 36.8% as compared to the same period last year;
- Basic earnings per share of the Company amounted to RMB0.42; and
- Diluted earnings per share of the Company amounted to RMB0.41.

The board of directors (the "**Board**") of China Feihe Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2021 (the "**Reporting Period**"), together with the comparative figures for the corresponding period in 2020.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	*4*	**11,543,762**	8,706,593
Cost of sales		**(3,086,674)**	(2,530,378)
Gross profit		**8,457,088**	6,176,215
Other income and gains, net	*4*	**900,999**	763,038
Selling and distribution expenses		**(3,334,938)**	(2,196,836)
Administrative expenses		**(604,553)**	(526,765)
Other expenses	*6*	**(38,164)**	(219,444)
Finance costs	*7*	**(14,562)**	(26,544)
Share of loss of an associate		**(3,740)**	(347)
Changes in fair value less costs to sell of biological assets		**(81,077)**	–
PROFIT BEFORE TAX	*5*	**5,281,053**	3,969,317
Income tax expense	*8*	**(1,515,799)**	(1,216,186)
PROFIT FOR THE PERIOD		**3,765,254**	2,753,131
Attributable to:			
Owners of the parent		**3,740,086**	2,753,131
Non-controlling interests		**25,168**	–
		3,765,254	2,753,131
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT			
Basic (expressed in RMB per share)	*10*	**0.42**	0.31
Diluted (expressed in RMB per share)	*10*	**0.41**	0.30

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**3,765,254**	2,753,131
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**61,042**	107,202
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**3,826,296**	2,860,333
Attributable to:		
Owners of the parent	**3,801,158**	2,860,333
Non-controlling interests	**25,138**	–
	3,826,296	2,860,333

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021

	Notes	**30 June 2021** *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**7,462,965**	7,197,272
Investment properties		**83,925**	78,134
Right-of-use assets		**350,131**	366,219
Goodwill		**47,976**	47,976
Intangible assets		**84**	89
Investment in a joint venture		**6,301**	6,301
Investment in an associate		**133,219**	136,959
Financial asset at fair value through other comprehensive income		**1,800**	1,800
Deposits for purchases of items of property, plant and equipment		**103,679**	126,070
Biological assets		**1,539,100**	1,441,941
Deferred tax assets		**406,650**	375,682
Long-term bank deposits		**700,000**	–
Total non-current assets		**10,835,830**	9,778,443
CURRENT ASSETS			
Inventories		**1,621,732**	1,284,472
Trade and bills receivables	*11*	**350,905**	288,808
Prepayments, deposits and other receivables		**532,124**	556,972
Due from a director		**80**	80
Structured deposits		**7,100,933**	6,331,376
Restricted cash		**25,301**	23,920
Cash and cash equivalents		**9,148,611**	10,058,767
Total current assets		**18,779,686**	18,544,395
CURRENT LIABILITIES			
Trade and bills payables	*12*	**1,385,296**	1,132,941
Other payables and accruals		**3,312,578**	4,517,720
Interest-bearing bank and other borrowings		**302,955**	448,254
Lease liabilities		**71,491**	98,331
Tax payable		**716,555**	910,123
Total current liabilities		**5,788,875**	7,107,369
NET CURRENT ASSETS		**12,990,811**	11,437,026
TOTAL ASSETS LESS CURRENT LIABILITIES		**23,826,641**	21,215,469

	Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**595,291**	732,217
Other payables		**497,813**	374,259
Deferred tax liabilities		**987,835**	784,212
Lease liabilities		**119,580**	139,256
Total non-current liabilities		**2,200,519**	2,029,944
Net assets		**21,626,122**	19,185,525
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**1**	1
Reserves		**20,162,567**	17,747,108
		20,162,568	17,747,109
Non-controlling interests		**1,463,554**	1,438,416
Total equity		**21,626,122**	19,185,525

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2021 has been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting* and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The interim condensed consolidated financial information does not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2020.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised International Financial Reporting Standards ("**IFRSs**") (which include all IFRSs, IASs and Interpretations) for the first time for the current period's financial information:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021* (early adopted)

The nature and impact of the revised IFRSs are described below:

(a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("**RFR**"). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The Group had interest-bearing borrowing denominated in foreign currency based on the Canadian Dollar Offered Rate ("**CDOR**") as at 30 June 2021. Since the interest rate of the borrowing was not replaced by RFRs during the period, the amendment did not have any impact on the financial position and performance of the Group. If the interest rate of the borrowing is replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of this borrowing when the "economically equivalent" criterion is met.

(b) Amendment to IFRS 16 issued in March 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the period ended 30 June 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the covid-19 pandemic. A reduction in the lease payments arising from the rent concessions has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the period ended 30 June 2021.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised (after the acquisition of YuanShengTai Dairy Farm Limited) into business units based on their products and has two reportable operating segments as follows:

- Raw milk segment – manufacture and sale of raw milk; and
- Dairy products and nutritional supplements products segment – manufacture and sale of dairy products and sale of nutritional supplements

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income, other interest income, non-lease-related finance costs, and share of loss of an associate, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, financial asset at fair value through other comprehensive income, long-term bank deposits, structured deposits, restricted cash, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Six months ended 30 June 2021

	Raw milk *RMB'000* (Unaudited)	Dairy products and nutritional supplements products *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Segment revenue			
Sales to external customers	22,158	11,521,604	11,543,762
Intersegment sales	815,281	–	815,281
	837,439	11,521,604	12,359,043
Reconciliation:			
Elimination of intersegment sales			(815,281)
Revenue			11,543,762
Segment results	80,986	5,037,731	5,118,717
Reconciliation:			
Elimination of intersegment results			(283)
Bank interest income			83,181
Other interest income			93,872
Share of loss of an associate			(3,740)
Finance costs (other than interest on lease liabilities)			(10,694)
Profit before tax			5,281,053
Segment assets	4,892,340	8,130,888	13,023,228
Reconciliation:			
Elimination of intersegment receivables			(138,983)
Corporate and other unallocated assets			16,731,271
Total assets			29,615,516
Segment liabilities	857,543	4,668,198	5,525,741
Reconciliation:			
Elimination of intersegment payables			(138,983)
Corporate and other unallocated liabilities			2,602,636
Total liabilities			7,989,394

During the six months ended 30 June 2020, the Group principally focused on the production and sale of dairy products and sale of nutritional supplements. Information reported to the Group's chief operating decision maker, for the purpose of resource allocation and performance assessment, focused on the operating results of the Group as a whole as the Group's resources were integrated and no discrete operating segment information was available. Accordingly, no operating segment information was presented.

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Mainland China	**11,433,395**	8,542,270
United States of America	**110,367**	164,323
	11,543,762	8,706,593

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	30 June	31 December
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Mainland China	**7,848,923**	7,516,705
United States of America	**84,491**	97,799
Canada	**1,793,966**	1,786,457
	9,727,380	9,400,961

The non-current asset information is based on the locations of the assets and excludes financial instruments and deferred tax assets.

4. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers	**11,543,762**	8,706,593

Revenue from contracts with customers

(i) ***Disaggregated revenue information***

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Type of goods		
Sales of goods	**11,543,762**	8,706,593
Geographical markets		
Mainland China	**11,433,395**	8,542,270
United States of America	**110,367**	164,323
Total revenue from contracts with customers	**11,543,762**	8,706,593
Timing of revenue recognition		
Goods transferred at a point in time	**11,543,762**	8,706,593

An analysis of other income and gains, net is as follows:

		Six months ended 30 June	
		2021	2020
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Other income			
Bank interest income		**83,181**	69,494
Other interest income		**93,872**	100,890
Government grants related to			
– Assets	*(i)*	**13,188**	1,834
– Income	*(ii)*	**593,184**	550,954
Others		**19,934**	14,927
		803,359	738,099
Gains, net			
Fair value gains on structured deposits		**86,100**	17,414
Foreign exchange gain, net		**–**	7,525
Gain on termination of leases		**11,540**	–
		97,640	24,939
		900,999	763,038

Notes:

(i) The Group received government grants in respect of the construction and acquisition of property, plant and equipment. These government grants are recorded initially at fair value as deferred income, which are amortised to match the depreciation charge of the property, plant and equipment in accordance with their estimated useful lives.

(ii) Various government grants have been received by the Group's subsidiaries operated in Heilongjiang and Jilin Provinces in Mainland China. There are no unfulfilled conditions or contingencies relating to these grants.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**2,478,198**	2,530,378
Breeding costs to produce	**436,084**	–
Production costs of raw milk	**172,392**	–
Cost of sales	**3,086,674**	2,530,378
Depreciation of property, plant and equipment	**226,691**	74,507
Less: Capitalised in biological assets	**(31,711)**	–
Depreciation recognised in the interim condensed consolidated statement of profit or loss	**194,980**	74,507
Depreciation of right-of-use assets	**12,812**	29,364
Rent expense – short term leases	**2,107**	3,148
Interest expense on lease liabilities	**3,868**	3,330
Write-down/(reversal of write-down) of inventories to net realisable value	**(14,485)**	6,834
Impairment/(reversal of impairment) of trade receivables	**(9,803)**	17,102
Foreign exchange differences, net	**7,157**	(7,525)

6. OTHER EXPENSES

An analysis of other expenses is as follows:

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost on disposal of cow-waste	**11,248**	–
Depreciation of investment properties	**6,018**	–
Impairment of right-of-use assets	**3,362**	59,506
Impairment of items of property, plant and equipment	**–**	3,970
Loss on disposal of items of property, plant and equipment	**7,849**	6,119
Impairment of trade receivables	**–**	17,102
Loss on disposal of old packaging materials	**1,609**	507
Donations	**7,851**	131,441
Others	**227**	799
	38,164	219,444

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on:		
Bank loans	**369**	38,513
Other loans	**10,325**	20,177
Lease liabilities	**3,868**	3,330
Total interest expense on financial liabilities not at fair value through profit or loss	**14,562**	62,020
Less: Interest capitalised	**–**	(35,476)
	14,562	26,544

8. INCOME TAX

Taxes on profits assessable in Mainland China have been calculated at the applicable PRC corporate income tax ("**CIT**") rate of 25% (six months ended 30 June 2020: 25%) during the period.

According to the prevailing tax rules and regulations, certain subsidiaries of the Group operating in the agricultural business are exempted from enterprise income tax.

Subsidiaries incorporated in Hong Kong are subject to income tax at the rate of 16.5% (six months ended 30 June 2020: 16.5%) during the period. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period (six months ended 30 June 2020: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current – PRC		
Charge for the period	**1,343,144**	1,130,966
Deferred	**172,655**	85,220
Total tax charge for the period	**1,515,799**	1,216,186

9. DIVIDEND

During the six months ended 30 June 2021, the Company declared a final dividend of HK$0.1586 per ordinary share, equivalent to a total of approximately RMB1.19 billion for the year ended 31 December 2020 to its shareholders. During the six months ended 30 June 2020, the Company declared a final dividend of HK$0.1943 per ordinary share, equivalent to a total of approximately RMB1.58 billion for the year ended 31 December 2019 to its shareholders.

Subsequent to the end of the reporting period, the board of directors declared an interim dividend of HK$0.2973 per ordinary share for the six months ended 30 June 2021, amounting to a total of approximately RMB2.21 billion. For the year ended 31 December 2020, the Company also declared an interim dividend of HK$0.1375 per ordinary share for the six months ended 30 June 2020, amounting to a total of approximately RMB1.10 billion.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit attributable to owners of the parent and the weighted average number of ordinary shares in issue during the period.

The calculation of the diluted earnings per share amounts for the six months ended 30 June 2021 and 2020 is based on the profit for the period attributable to owners of the parent and the total of (i) the weighted average number of ordinary shares as used in the basic earnings per share calculation, and (ii) the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all outstanding share options into ordinary shares under the share option schemes.

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings:		
Profit for the period attributable to owners of the parent	**3,740,086**	2,753,131

	Number of shares	
	30 June 2021 (Unaudited)	30 June 2020 (Unaudited)
Shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	**8,931,673,028**	8,933,340,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**180,433,211**	168,768,972
	9,112,106,239	9,102,108,972

11. TRADE AND BILLS RECEIVABLES

	30 June 2021	31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**299,376**	224,307
Bills receivable	**62,767**	85,542
	362,143	309,849
Impairment	**(11,238)**	(21,041)
	350,905	288,808

The Group has a policy of requiring payment in advance from customers for the sale of products (other than cash and credit card sales and sales of raw milk), except for some major customers, where the trading terms are on credit. The Group grants a defined credit period usually ranging from one to three months from the date of invoice to these customers. The Group seeks to maintain strict control over its receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2021	31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 month	**243,046**	251,382
1 to 2 months	**87,661**	14,044
2 to 3 months	**10,769**	13,603
Over 3 months	**9,429**	9,779
	350,905	288,808

12. TRADE AND BILLS PAYABLES

	30 June 2021	31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade and bills payables	**1,385,296**	1,132,941

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2021	31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 3 months	**1,316,852**	1,086,328
3 to 6 months	**36,729**	23,433
Over 6 months	**31,715**	23,180
	1,385,296	1,132,941

The trade and bills payables are unsecured, non-interest-bearing and are normally settled on terms of one to six months.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

China is the world's most populous country and one of the fastest growing infant milk formula markets in the world. With continued urbanization and the rise in the number of women in the workplace, an increasing number of mothers in China have grown to accept the convenience and nutritional benefits offered by infant milk formula products as a supplement to and/or substitute for breast milk for their infants. According to a report by Frost & Sullivan, an industry consulting firm, due to China's declining birth rate, China's infant milk formula market in terms of retail sales volume began to decline in 2019, and is expected to fall to 764,900 tons by 2025, representing a CAGR of –4.1% from 2020. However, due to the factors listed below, China's infant milk formula market in terms of retail sales value is expected to remain stable.

- Growth in consumers' confidence in the quality of and preference for China's infant milk formula products. With the enhancement in the quality management regime of China's dairy industry and the increased competitiveness of Chinese dairy brands, consumers' confidence in and consumption preference for China's infant milk formula products continued to increase. The growth in consumer demand for infant milk formula products will drive the production and sales of China's infant milk formula products, which could in turn better satisfy consumers' diversified and unique consumption needs.

- Growth of the high-end infant milk formula segment. Due to increasing urbanization, rising disposable income and growing health awareness, the demand for high-end infant milk formula products, particularly super-premium products, is expected to be the driving force of the overall infant milk formula industry in China. According to the National Bureau of Statistics' 2020 Statistical Report on National Economic and Social Development, China's total economic volume in 2020 reached RMB101.6 trillion, with a per capita GDP of RMB72,447 (USD$10,500, converted at the average exchange rate of the year), which will in turn increase the consumption momentum of China's high-end infant milk formula products.

- Increasing urbanization and rising disposable income. The increase in the urbanization rate and the per capita annual disposable income of Chinese residents will enhance the purchasing power of consumers, allowing them to purchase more infant milk formula products. Lower-tier cities as well as rural areas in China are becoming wealthier and more urbanized, and families in such regions are increasingly able to afford higher-quality infant milk formula products. In general, these regions have larger populations and therefore higher potential for consumption growth.

- Favorable industry policies implemented by the PRC government:

  - o The Administrative Measures for the Registration of Product Formulas of Infant Formula Milk Powder (嬰幼兒配方乳粉產品配方註冊管理辦法) (issued in June 2016 and became effective on 1 January 2018) limit each registered infant milk formula product manufacturer to the registration of up to three product series, resulting in a higher market concentration which would benefit major infant milk formula market players to achieve a strong presence in small cities and rural areas in China.

  - o The National Development and Reform Commission of China unveiled the Action Plan for the Promotion of Domestic Infant Milk Formula (國產嬰幼兒配方乳粉提升行動方案) in May 2019, aiming to increase the portion of domestically manufactured infant milk formula in China with a target to remain a 60% self-sufficient level in the industry, and to encourage the use of fresh milk in the production of infant milk formula.

  - o On 28 July 2021, the State Administration for Market Regulation published the Notice of the public solicitation for opinions on the Announcement of the State Administration for Market Regulation on the Further Regulation of Labels and Identification of Infant Milk Formula Product (Draft for Comment) (市場監管總局關於進一步規範嬰幼兒配方乳粉產品標籤標識的公告(徵求意見稿)), which made further stipulations on the characteristics, such as the label's main display layout, content claim, pattern, and feeding suggestion form. In addition, it is stipulated that if the product name refers to certain animal origin, all the milk protein raw materials in the product should come from such animal species. For compound ingredients in product ingredient list (excluding compound food additives), the original ingredients must be specified. Furthermore, companies not in compliance with the above stipulations are required to rectify within 6 months upon the issuance of the announcement.

Business Overview

Dairy Products

The Group's infant milk formula products are designed to closely simulate the composition of the breast milk of Chinese mothers through in-house research and development formulations, with the aim of achieving an optimal balance of key ingredients for Chinese babies based on their biological physique. The Group offers a diversified portfolio of products which caters to a wide range of customer base at different prices. In addition to super-premium and premium, the Group also offers a portfolio of well-known brands spanning the regular infant milk formula series as well as other products such as dairy products for adults and students.

Sales and Distribution Network

The Group primarily sells its products through an extensive nationwide distribution network of over 2,000 offline customers with more than 110,000 retail points of sale as at 30 June 2021. The Group's offline customers are distributors who sell its products to retail outlets as well as maternity store operators, supermarkets and hypermarket chains in some cases. Revenue generated through sales to the Group's offline customers accounted for 86.5% of its total revenue from dairy products for the six months ended 30 June 2021.

To capture the rapid growth from e-commerce sales in China, particularly among younger generations of consumers, the Group's products are also sold directly on some of the largest e-commerce platforms as well as through its own website and mobile applications.

Production Capacity Improvements

The Group continued to optimize its production arrangements to increase its capacity and efficiency. As at 30 June 2021, the Group had eight production facilities to manufacture its products with a designed annual production capacity of approximately 260,000 tonnes in total. The Group regularly upgrades and expands its production facilities to meet its production needs. In anticipation of the Group's continued robust growth and increasing demand for its products, the Group has completed the expansion of one of its existing production facilities (our Longjiang plant) and is constructing one new production facility (our Harbin plant).

Marketing

The Group is a pioneer in China's infant milk formula market by positioning its brand as "More Suitable for Chinese Babies" (更適合中國寶寶體質) and has an established strong brand association with this message. The Group's innovative online and offline marketing strategies have enabled Feihe to become one of the most widely recognized and reputable infant milk formula brands among Chinese consumers today. The Group's marketing strategy consists of three key components:

- Face-to-face seminars, including Mother's Love seminars, Carnivals and Roadshows. In the six months ended 30 June 2021, more than 400,000 face-to-face seminars were held in total, which include more than 9,000 online face-to-face seminars and 390,000 offline face-to-face seminars. The number of new customers we acquired exceeded 800,000;

- Maximize online interactivity with consumers; and

- Targeted and results-driven exposure on media.

Vitamin World USA

The Group acquired the retail health care business of Vitamin World in early 2018 through Vitamin World USA ("**Vitamin World USA**"). Vitamin World USA engages in the retailing of vitamins, minerals, herbs, and other nutritional supplements. It operated more than 60 specialty stores across the United States of America (the "**United States**"), mostly in malls and outlet centres, and employed 255 people as at 30 June 2021. The Group also sells such products through its own website Vitamin World USA, and e-commerce platforms. Revenue generated from nutritional supplement products was RMB110.4 million, accounting for 1.0% of the Group's total revenue for the six months ended 30 June 2021.

Operating Results and Analysis

The Six Months Ended 30 June 2021 Compared to Six Months Ended 30 June 2020

The table below sets forth Group's interim condensed consolidated statement of profit or loss and consolidated statement of comprehensive income in absolute amounts and as a percentage of the Group's total revenue for the periods indicated, together with changes (expressed in percentages) from 2020 to 2021.

	For the six months ended 30 June				Percentage Changed
	2021		2020		
	(In thousands of RMB, except percentages) (Unaudited)				
Revenue	**11,543,762**	**100%**	8,706,593	100%	32.6%
Cost of sales	**(3,086,674)**	**(26.7)%**	(2,530,378)	(29.1)%	22.0%
Gross profit	**8,457,088**	**73.3%**	6,176,215	70.9%	36.9%
Other income and gains, net	**900,999**	**7.8%**	763,038	8.8%	18.1%
Selling and distribution expenses	**(3,334,938)**	**(28.9)%**	(2,196,836)	(25.2)%	51.8%
Administrative expenses	**(604,553)**	**(5.3)%**	(526,765)	(6.1)%	14.8%
Other expenses	**(38,164)**	**(0.3)%**	(219,444)	(2.5)%	(82.6)%
Finance costs	**(14,562)**	**(0.2)%**	(26,544)	(0.3)%	(45.1)%
Share of loss of an associate	**(3,740)**	**0%**	(347)	0%	977.8%
Changes in fair value less costs to sell of biological assets	**(81,077)**	**(0.7)%**	–	–	N/A
Profit before tax	**5,281,053**	**45.7%**	3,969,317	45.6%	33.0%
Income tax expense	**(1,515,799)**	**(13.1)%**	(1,216,186)	(14.0)%	24.6%
Profit for the period	**3,765,254**	**32.6%**	2,753,131	31.6%	36.8%
Other comprehensive income					
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	**61,042**	**0.5%**	107,202	1.2%	(43.1)%
Total comprehensive income for the period	**3,826,296**	**33.1%**	2,860,333	32.8%	33.8%

Revenue

The Group's revenue increased by 32.6% from RMB8,706.6 million for the six months ended 30 June 2020 to RMB11,543.8 million for the six months ended 30 June 2021, primarily due to an increase in revenue generated from Astrobaby product, organic product, product series containing lactoferrin and children's milk formula product. The decrease in the revenue from nutritional supplement products during the same periods was primarily due to the store closures resulting from the COVID-19 pandemic in the United States.

Cost of Sales

The Group's cost of sales increased by 22.0% from RMB2,530.4 million for the six months ended 30 June 2020 to RMB3,086.7 million for the six months ended 30 June 2021, primarily due to the increased sales volume of the Group's products.

Gross Profit and Gross Profit Margin

The Group's gross profit increased by 36.9% from RMB6,176.2 million for the six months ended 30 June 2020 to RMB8,457.1 million for the six months ended 30 June 2021.

The Group's gross profit margin increased from 70.9% for the six months ended 30 June 2020 to 73.3% for the six months ended 30 June 2021, primarily due to the acquisition of YuanShengTai Daily Farm Limited ("**YST**") which resulted in the direct reflection of YST's gross profit in the gross profit of the Group.

Other Income and Gains, Net

Other income and gains, net increased by 18.1% from RMB763.0 million for the six months ended 30 June 2020 to RMB901.0 million for the six months ended 30 June 2021, primarily due to (i) an increase in government grants, and (ii) an increase in bank interest income and fair value gain on structured deposits.

Selling and Distribution Expenses

Selling and distribution expenses increased by 51.8% from RMB2,196.8 million for the six months ended 30 June 2020 to RMB3,334.9 million for the six months ended 30 June 2021, primarily due to (i) an increase in advertising and promotional expenses, and (ii) an increase in consumer service fees.

Administrative Expenses

Administrative expenses increased by 14.8% from RMB526.8 million for the six months ended 30 June 2020 to RMB604.6 million for the six months ended 30 June 2021, primarily due to (i) an increase in staff costs, and (ii) an increase in research and development costs.

Other Expenses

Other expenses significantly decreased from RMB219.4 million for the six months ended 30 June 2020 to RMB38.2 million for the six months ended 30 June 2021, primarily due to the decrease in donations.

Finance Costs

Finance costs decreased by 45.1% from RMB26.5 million for the six months ended 30 June 2020 to RMB14.6 million for the six months ended 30 June 2021, primarily due to an decrease in the Group's interest-bearing borrowings.

Profit before Tax

As a result of the foregoing, the Group's profit before tax increased by 33.0% from RMB3,969.3 million for the six months ended 30 June 2020 to RMB5,281.1 million for the six months ended 30 June 2021.

Income Tax Expenses

Our income tax expense increased by 24.6% from RMB1,216.2 million for the six months ended 30 June 2020 to RMB1,515.8 million for the six months ended 30 June 2021 as a result of an increase in our profit before tax for the six months ended 30 June 2021.

The Group's effective tax rate, calculated by dividing the Group's income tax expense by the Group's profit before tax, was 30.6% for the six months ended 30 June 2020 and 28.7% for the six months ended 30 June 2021.

Profit for the Period

As a result of the foregoing, our profit for the period increased by 36.8% from RMB2,753.1 million for the six months ended 30 June 2020 to RMB3,765.3 million for the six months ended 30 June 2021.

Liquidity and Capital Resources

In the six months ended 30 June 2021, the Group financed its operations primarily through cash flows from operations, interest-bearing bank and other borrowings, and net proceeds from the global offering of the Company (the "**Global Offering**"). The Group monitors its bank balances on a daily basis and conduct monthly reviews of our cash flows. We also prepare a monthly cash flow plan and forecast, which is submitted for approval by our Chief Financial Officer and Vice President of Finance Department, to ensure that we are able to maintain an optimum level of liquidity and meet our working capital needs.

In addition, we also used cash to purchase wealth management products. The underlying financial assets of the wealth management products generally are a basket of assets with a combination of money market instruments such as money market funds, interbank lending and time deposits, debt, bonds and other assets such as assets in insurance, trust fund plans and letters of credit. We form our portfolio of wealth management products with the view of achieving (i) a relatively low level of risk, (ii) good liquidity and (iii) an enhanced yield. Our investment decisions are made on a case-by-case basis and after due and careful consideration of a number of factors, including but not limited to our overall financial condition, market and investment conditions, economic developments, investment cost, duration of investment and the expected returns and potential risks of such investment.

Cash and Cash Equivalents

As at 30 June 2021, the Group had cash and cash equivalents of RMB9,148.6 million, which primarily consisted of cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted for use.

Net Proceeds from the Global Offering

For net proceeds from the Global Offering, please see "Use of Net Proceeds".

Bank and Other Borrowings

As at 30 June 2021, the Group's interest-bearing bank and other borrowings were approximately RMB898.2 million.

Capital Structure

As at 30 June 2021, the Group had net assets of RMB21,626.1 million, comprising current assets of RMB18,779.7 million, non-current assets of RMB10,835.8 million, current liabilities of RMB5,788.9 million and non-current liabilities of RMB2,200.5 million.

The Group's gearing ratio was calculated by net debt divided by the capital plus net debt. Net debt is calculated as interest-bearing bank and other borrowings, as shown in the consolidated statements of financial position less cash and bank balances, time deposits, restricted cash and pledged deposits. Total capital is calculated as equity holders' funds (i.e. total equity attributable to equity holder of the Company), as shown in the consolidated statements of financial position. The Group's gearing ratio decreased from (0.50) as at 31 December 2020 to (0.45) as at 30 June 2021.

Interest Rate Risk and Exchange Rate Risk

We are exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. During the six months ended 30 June 2021, we have not used any derivatives to hedge interest rate risk.

We have transactional currency exposures mainly with respect to (i) our bank and other loans denominated in U.S. dollars and Canadian dollars; and (ii) our investment in the construction of the overseas plant in Canada, which was made in Canadian dollars. During the six months ended 30 June 2021, we did not have a foreign currency hedging policy in respect of other foreign currency transactions, assets and liabilities. We will monitor our foreign currency exposure closely and will consider hedging significant foreign currency exposure in accordance with our plans to develop overseas business.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the six months ended 30 June 2021, the Group did not have any material acquisitions and disposals of subsidiaries or associated companies.

Pledge of the Group's Assets

As at 30 June 2021, the total pledged group assets amounted to approximately RMB1,764.2 million, representing an increase of RMB13.1 million as compared to the beginning of 2021.

Future Plans for Material Investments or Capital Assets

Save for the expansion plans as disclosed in the sections headed "Business" and "Future Plans and Use of Proceeds" in the Prospectus, the Group has no specific plan for major investment or acquisition for major capital assets or other businesses. However, the Group will continue to identify new opportunities for business development.

Contingent Liabilities

As at 30 June 2021, the Group did not have any contingent liabilities.

Subsequent Events

On 15 July 2021, the Company granted a total of 8,193,800 share options to subscribe for a total of 8,193,800 ordinary shares of the Company to 202 eligible participants under the share option scheme adopted by the Company on 22 June 2020, subject to the acceptance of such grantees. For details, please refer to the announcement of the Company dated 15 July 2021.

Future Prospects

Persisting in the innovation in breast milk and full-cycle nutrition and health related research in China

Driven by scientific and technological innovation and the newly established Feihe Research Institute, Feihe will continue to deepen its cooperation with the world's top scientific research institutions led by Peking University and Harvard University, and comprehensively enhance its basic research, applied research, product research and consumer research to further build a high-level nutrition and health research platform that leads the research of breast milk in China and covers the whole life cycle and more population. Feihe will make efforts to implement the "double chain integration" strategic system to combine the development of the industry chain and the innovation chain, thus forming an efficient synergy between integrated industrial clusters and high-level scientific research and innovation. With academician workstations and post-doctoral scientific research workstations, we will introduce high-level technicians and build a technological innovation system that integrates production, academics and research, so as to promote the continuous transformation of scientific research achievements into high-quality products.

Feihe will rely on cutting-edge life science research applied technologies for deep processing of dairy products, focus on the breast milk research in China, expand the research on the physique and health of Chinese people at different stages, reserve cutting-edge innovative raw materials such as human milk oligosaccharides, maternal and infant probiotics, functional proteins and functional fats, so as to further secure raw materials that are essential to the simulation of breast milk. With intensive and meticulous efforts and continuous investment in scientific research, Feihe will strive to create innovative products that are more suitable for the physique of Chinese people. Feihe is committed to realising its vision of "Managing the Lifelong Health of Human Beings" and becoming the most trusted and respected family nutrition expert.

Embracing the digital age and promoting the digital and intelligent transformation and upgrade

In the future, Feihe will further promote the "comprehensively digital" transformation, realize the deep connection and integration of supply chain, production end and consumption; fully empower the industrial cluster integrating agriculture, animal husbandry and industry; break information transmission barriers among businesses, processes and systems; eliminate information isolated islands, realize highly integrated production management and automation; and completely form a positive feedback loop of production, supply chain and consumption. We will cooperate with entities in the upstream and downstream parts of the industrial chain, and continuously build a middle platform of core data, deeply integrate and tap the value of data, steadily promote the application of intelligent algorithms, and improve the capabilities of the corporate digital and intelligent system that entails consistency, agility, prediction, feedback and bi-directionality. Meanwhile, Feihe will further identify the business differences between our plants in terms of production, continuously promote the launch of the intelligent manufacturing system, control the whole process control of the production for each can of milk powder, thereby improving production efficiency and product quality. We will continuously build a fresh and agile supply system, and optimize our warehousing and logistics network, inventory management and turnover efficiency, so as to deliver the promise of providing "fresher" milk powder.

In terms of the consumer end, our digital and intelligent upgrade will provide users with more targeted products and customized services, which will in turn support product research and development and service innovation, thus providing a better consumption experience to consumers.

Strengthening value preposition and creating a strong brand image

Feihe will adhere to its sustainable development principle of "more suitable", implement the core values of "users first, practical style, win-win outcome, and continuous improvement", and make efforts to become the most trusted and respected family nutrition expert. Feihe will always comply with national policies, comprehensively enhance the social value of the brand, continuously create an excellent leading brand, and lead and unite more people with high potential. Meanwhile, Feihe will comprehensively establish a strategic position for its brand, continuously strengthen its IP branding, form a barrier in integrated marketing, and build an image of a professional and authoritative family nutrition expert.

Feihe will stay true to its original vision of serving mothers and infants. Feihe will continuously promote "May 28" as Babies' Day in China, to encourage higher quality company for babies. Feihe will continuously upgrade its three major intelligent platforms, the star mother association (星媽會), high-quality selection for star mothers (星媽優選) and intelligent nutrition consultant (智慧營養顧問), so as to provide high-quality content and services for more consumers of products for infants and mothers, and enable them to fully enjoy the convenience of science and technology. Feihe will firmly adhere to the philosophy of customer first, take consumers as the core of brand building, tap and research into the needs and insights of consumers in first-and second-tier cities. Feihe will fully attract the attention of mainstream young users, pay attention to and continuously improve user experience, and provide high-end and targeted services. Feihe will continuously progress and strive to build a world-renowned brand of a Chinese dairy enterprise with its innovation spirit.

Fulfilling the social responsibility of a domestic dairy enterprise

In the future, Feihe will thoroughly implement and incorporate the rural revitalization strategy of China. With the advantages of the whole industrial cluster, Feihe will continuously promote the joint development of the upstream and downstream partners in the industrial ecological chain, so as to contribute to driving local economic development and increasing the employment and income of the people. Feihe will actively respond to the national goals of "peaking of carbon emissions" and "carbon neutrality", firmly carry out green, low-carbon, high-quality and sustainable development with priority to ecological protection. Feihe will continuously build an industrial model of ecological cycle. We will use digital and intelligent transformation achievements for green production and green manufacturing, and construct more "green feedlots" and "green factories", so as to provide consumers with more "green products". Feihe will always concern about the health of mothers and infants, continuously carry out social welfare and charity activities, actively support the strategy of "Healthy China", and show its home and country sensation of "One Home in the World Sharing Weal and Woe" with actions, and convey the corporate spirit of "Doing our Best to Contribute to the Society".

Facing the new opportunities and challenges arising out of the new situation and the pandemic of the century, Feihe will thoroughly implement the new national strategies and policies, establish new development philosophies, make new development arrangements, focus on our principal business, strengthen innovation-driven development, comprehensively supplement, enhance and extend the industry chain. With continuously improved products and services, Feihe will carry out the corporate mission of "bring joy and health to families" and strive to be the most trusted and respected family nutrition expert.

OTHER INFORMATION

EMPLOYEES AND REMUNERATION

As of 30 June 2021, the Group had 7,924 full-time employees (YST: 1,689), the majority of whom are based in China.

In line with the performance of the Group and individual employees, the Group strives to offer a good working environment, various training programs as well as an attractive remuneration package to its employees. The Group provides training programs to our employees, including new hire training for new employees and regular quality control, production safety and other technical training for our personnel to enhance their skill and knowledge. The Group takes measures to promote equal opportunities, anti-discrimination, and diversity among employees. In addition, the Group endeavours to motivate its staff with performance-based remuneration. On top of basic salary, the Group will reward staff with outstanding performance by way of bonuses, honorary awards, promotions, options or a combination of the above to further align the interests of the employees and the Company, to attract talented individuals, and to create long-term incentive for its staff.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company recognizes the importance of maintaining and promoting sound corporate governance. The principles of the Company's corporate governance are to promote effective internal control measures, to ensure that its business and operations are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to the Company and its shareholders. The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as its own code of corporate governance.

Save as disclosed below, the Board is of the view that the Company has complied with the applicable code provisions of the CG Code during the six months ended 30 June 2021.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Chairman and Chief Executive Officer of the Company are held by Mr. LENG Youbin ("**Mr. Leng**"), who has in-depth industry experience and knowledge about the operation and management of the business of the Company. Mr. Leng is the founder of the Group and has been operating and managing the Group. He is responsible for the overall development strategies and business plans of the Group. The Board is of the view that given that Mr. Leng had been responsible for leading the strategic planning and business development of the Group, the arrangement would allow for effective and efficient planning and implementation of business decisions and strategies under the strong and consistent leadership, and should be overall beneficial to the management and development of the Group's business.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as the code of conduct regarding directors' dealings in the securities of the Company.

Having made specific enquiry of all the directors of the Company, all the directors confirmed that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2021.

The Board has also established written guidelines to regulate dealings by relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of securities in the Company as referred to in code provision A.6.4 of the CG Code.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, the Company exercised its powers under the general mandate to repurchase the shares of the Company (the "**Shares**") granted by the shareholders of the Company to the Board, which shall expire on the conclusion of the next annual general meeting of the Company (the "**Share Repurchase Plan**"), and repurchased a total of 16,101,000 Shares on the Stock Exchange at an aggregate consideration of approximately HK$306.2 million. All of these repurchased Shares were subsequently cancelled. The total number of Shares of the Company in issue as at 30 June 2021 is 8,917,239,000. Details of the repurchase of Shares are summarized as follows:

Date of repurchases	**Number of Shares repurchased**	**Highest price paid** *HK$*	**Lowest price paid** *HK$*
9 June 2021	8,601,000	19.60	19.20
10 June 2021	2,500,000	19.26	19.20
16 June 2021	2,000,000	19.00	18.88
21 June 2021	3,000,000	17.70	17.22
	16,101,000		

The Board considers that the then trading price of the Shares did not reflect their intrinsic value and the business prospects as perceived by investors. The Share Repurchase Plan reflects the confidence of the Board and the management team in the current and long-term business outlook and growth of the Company, driven by the Company's market leading position. The Board considers that the Share Repurchase Plan is in the best interest of the Company and its shareholders as a whole.

Save as disclosed above, neither the Company nor any member of the Group purchased, sold or redeemed any of the Company's shares during the Reporting Period.

USE OF NET PROCEEDS

The Company was listed on the Stock Exchange on 13 November 2019 and the net proceeds raised from the Global Offering were approximately HK$6,554.7 million. During the Reporting Period, there was no change in the intended use of net proceeds as disclosed in the prospectus of the Company dated 30 October 2019 (the "**Prospectus**").

As at 30 June 2021, the Company has utilized the net proceeds from the Global Offering for the following purpose: (i) HK$1,363.6 million being used for the payment of offshore debts; (ii) HK$170.5 million being used for the expansion of Vitamin World USA operations; (iii) HK$655.0 million being used for the working capital and general corporate purposes; (iv) HK$1,310.9 million being used for merger and acquisition; and (v) HK$31.9 million being used for funding the operation of the Group's Kingston plant. For the amounts not yet utilized, the Company will apply the remaining net proceeds in the manner set out in the Prospectus.

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to recommend an interim dividend of HK$0.2973 per Share for the six months ending 30 June 2021 (the "**2021 Interim Dividend**") with an aggregate amount of approximately HK$2,651,095,000 (equalling approximately RMB2,206,506,000) to shareholders of the Company (the "**Shareholders**") whose names are listed on the Company's register of members as at 3 September 2021. The 2021 Interim Dividend is based on (i) our dividend policy set out in the Prospectus of intending to distribute no less than 30% of our net profit for each financial year, and (ii) an approximately additional 30% of our profit for the six months ended 30 June 2021, totaling approximately 60% of our profit for the six months ended 30 June 2021 in RMB denomination being converted into Hong Kong dollar denomination based on the average central parity rate of RMB to Hong Kong dollar as announced by the People's Bank of China for the five business days prior to the date of this announcement[(1)]. The 2021 Interim Dividend will be declared and paid in Hong Kong dollars, and is expected to be paid on or around 14 September 2021.

(1): When calculating such percentages, the profit of YST was excluded from our profit for the six months ended 30 June 2021.

In order to ascertain Shareholders' entitlement to the proposed 2021 Interim Dividend, the register of members of the Company will be closed from 2 September 2021 to 3 September 2021 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the 2021 Interim Dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at the above-mentioned address for registration no later than 4:30 p.m. on 1 September 2021.

We intend to maintain our dividend policy of distributing no less than 30% of our total net profit each financial year to our shareholders going forward, subject to our future investments plans.

AUDIT COMMITTEE

The Company has established the audit committee of the Company (the "**Audit Committee**") with written terms of reference in compliance with the CG Code. The Audit Committee comprises three members, namely Mr. FAN Yonghong, Mr. GAO Yu and Mr. Jacques Maurice LAFORGE. Mr. FAN Yonghong is the chairman of the Audit Committee.

The audit committee of the Company has reviewed with the Company's management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal control, whistleblowing policy and system and financial reporting matters, including the review of the Group's financial statements and interim results for the six months ended 30 June 2021.

The unaudited interim condensed consolidated financial statements of the Company and its subsidiaries for the six months ended 30 June 2021 have been reviewed by the Company's auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's independent review report will be included in the Company's 2021 Interim Report to the shareholders.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.feihe.com. The 2021 Interim Report of the Company containing all the information required by the Listing Rules will be dispatched to the Shareholders in due course and will be published on the websites of the Company and the Stock Exchange.

By Order of the Board
China Feihe Limited
LENG Youbin
Chairman

Beijing, China, 18 August 2021

As at the date of this announcement, our executive directors are Mr. LENG Youbin, Mr. LIU Hua, Mr. CAI Fangliang and Ms. Judy Fong-Yee TU; our non-executive directors are Mr. GAO Yu, Mr. Kingsley Kwok King CHAN and Mr. CHEUNG Kwok Wah; and our independent non-executive directors are Ms. LIU Jinping, Mr. SONG Jianwu, Mr. FAN Yonghong and Mr. Jacques Maurice LAFORGE.